

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 90-13-G - ORDER NO. 90-779
AUGUST 15, 1990

IN RE: Annual Review of the Gas Costs)
 and Purchasing Policies of)
 United Cities Gas Company.) ORDER

On August 14, 1987, the Public Service Commission of South Carolina (the Commission) issued its Order No. 87-900 which requires the annual review of the Purchased Gas Adjustment (PGA) and Gas Purchasing Policies of United Cities Gas Company (United Cities). Pursuant to that Order and in order for testimony and evidence to be received from all interested parties, the Commission scheduled a public hearing for 10:30 a.m., July 18, 1990, in the Commission's Hearing Room, 111 Doctors Circle, Columbia, South Carolina.

Testimony was presented by United Cities by Bobby J. Cline and for the Commission Staff by Brent L. Sires. The Consumer Advocate of South Carolina intervened in the proceeding.

Based on the record before it, the Commission makes the following findings and conclusions:

1. Witness Cline testified that United Cities' PGA Rider has been working properly, that gas costs have been properly recorded in compliance with the orders of this Commission, and that United Cities is not proposing any amendments to its PGA Rider in this

proceeding. Mr. Cline further testified that if demand charges continue to increase, however, it may be necessary to amend the PGA Rider in the future. Witness Sires testified that United Cities' PGA Rider is designed to timely recover its cost of gas and that the PGA Rider provides United Cities the flexibility to retain its industrial load and to recover its full margin.

Based on the evidence set forth above, the Commission finds that United Cities has accounted for its gas costs in compliance with past Commission orders and that United Cities' current PGA is working properly under current conditions and should be continued. This finding is without prejudice to United Cities' filing to amend its PGA Rider in the future as conditions change.

2. Witness Cline testified that United Cities' gas purchasing policy is to purchase the least expensive gas available considering the need for security of supply and flexibility to meet the needs of its various customer classes. During the period under review in these proceedings, United Cities testified that it took the following steps to keep its gas costs as low as possible:

(a) United Cities has actively participated in all matters before FERC and other governmental agencies where action by those agencies could reasonably be expected to affect United Cities' rates and services to its customers.

(b) United Cities has converted 1,624 dekatherms (dts) per day of its sales contract with Transco to firm transportation (fT) and the remainder of its sales contract with Transco to long term firm transportation (LTFT). FT and LTFT services enable United

Cities to take advantage of market responsive priced gas and to minimize its gas costs.

(c) United Cities has worked with its industrial customers to transport customer owned gas. Transportation service allows United Cities to compete with alternative fuels without the need to negotiate its regular rate schedules.

(d) United Cities has lowered its gas costs by purchasing spot gas in the summer when spot prices are lower and storing the gas in storage which United Cities has under contract in order to lower its gas costs during the winter months when spot prices are higher.

(e) United Cities has nominated 750 Mcf/day of winter FT service during peak months and 675 thousand cubic feet (Mcf)/day of summer FT service during shoulder months under Transco's Southern Expansion project in order to meet its peak firm demands. This service offers the best priced peaking service and will enable United Cities to delay construction of more expensive facilities to provide peaking.

Witness Sires testified that the Gas Department reviewed the current gas purchasing policies of United Cities and found, with one exception, that United Cities has continued its attempts to get the best terms available in its negotiations with suppliers and in proceedings before the Federal Energy Regulatory Commission (FERC). The one exception related to United Cities' payment of commissions to its subsidiary, UCG Energy Corporation (UCG Energy), and is discussed in finding No. 4 below.

Witness Sires also testified that United Cities' direct sales program benefits all customers on its system because it (a) provides competitive customers the advantage of using natural gas, (b) permits United Cities to recover its full approved margins, (c) allocates to the alternate fuel customers their pro-rata share of storage demand costs, balancing adjustment, demand costs, and volumetric take-or-pay charges, (d) allows United Cities to buy larger quantities of gas thereby increasing its competitive position in the natural gas market and (e) insures that direct sales customers will continue to buy natural gas and thereby helps to avoid margin losses that would have to be recovered from all customers through a margin recovery mechanism or a general rate proceeding.

Based on the evidence set forth above, the Commission finds that United Cities attempts to get the best terms available in its negotiations with suppliers and in proceedings with the FERC and is meeting its responsibility to maintain adequate supplies at just and reasonable costs to serve all of its customers. Therefore, the Commission concludes that the gas purchasing policies and procedures of United Cities are prudent and reasonable except for one matter which is discussed in Finding No. 4.

4. Mr. Sires testified that United Cities presently pays a commission to UCG Energy with respect to certain gas purchased by UCG Energy for United Cities' direct sales program. Mr. Sires recommended that United Cities discontinue paying commissions with respect to these purchases; however, United Cities could reimburse

UCG Energy for actual operating expenses incurred with respect to any gas purchased by UCG Energy for United Cities. This recommendation would not prevent industrial customers from (1) purchasing gas directly from UCG Energy under individual agency agreements and (2) paying commissions to UCG Energy under these individual agency agreements.

The Commission finds, based on the evidence above, that the change in procedures proposed by Mr. Sires will permit UCG Energy to recover reasonable costs which it incurs on behalf of United Cities' South Carolina system supply purchases but not collect commissions with respect to these purchases. The Commission also finds that United Cities' industrial customers are free to purchase gas from suppliers of their choice and to pay commissions to agents and brokers, including UCG Energy, in connection with those purchases. Based on these findings, the Commission concludes that the revised procedures are fair and reasonable.

IT IS THEREFORE ORDERED:

1. That United Cities has accounted for its gas costs in compliance with past Commission orders.
2. That United Cities' current PGA is working properly and should be continued.
3. That the gas purchasing practices of United Cities Gas Company be, and hereby are, found to be prudent and reasonable with the exception set forth in No. 4 below.
4. That United Cities is authorized to reimburse UCG Energy Corporation for reasonable actual expenses incurred by UCG Energy

Corporation on behalf of United Cities for South Carolina system supply purchases but may not collect commissions with respect to these purchases; provided, however, that nothing herein shall prevent United Cities' customers from paying commissions to UCG Energy when UCG Energy acts as their agent or broker in connection with the purchase of gas.

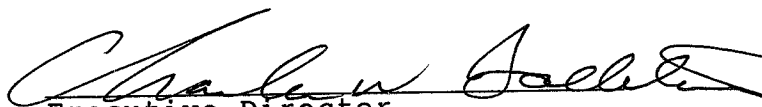
5. That United Cities shall maintain records in sufficient detail to allow the Commission to ensure that South Carolina customers are paying only their share of the actual operating expenses of UCG Energy Corporation.

6. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)